



## Start-ups: The Founding Team Is a Real Magic Bullet

**Studies show that the entrepreneurial team may impact a start-up's long-term success more than its product.**

When we consider great teams, the ties that bind them together are generally a blend of unique skills and shared experiences. Team members aren't all necessarily from the same background, but at some moment in their lives, they are moulded by similar challenges. One forge for start-up talent is an elite unit of the Israeli Intelligence Corps, Unit 8200. Dubbed Israel's **secret start-up machine** by *Forbes*, this group demands creativity from its members while they are under intense pressure.

One stellar output of Unit 8200 is Adallom, a cloud security start-up which was founded in 2011 by three former members of the unit, Assaf Rappaport, Ami Luttwak and Roy Reznik. Serving together enabled these founders to build close ties plus establish the key skills and knowledge needed for later stages of their venture. All three founding members had a strong background in computer science, but they also brought complementary skills in strategy consulting, biomedical engineering research and entrepreneurial experience. A resounding success, it was sold to **Microsoft** in 2015 for US\$320 million.

Not everyone can find their dream team in this manner, but before assembling their founding teams, entrepreneurs need to consider the right mix. In a recent article, "**Entrepreneurial Team Formation**", we systematically reviewed the literature around the pre-start-up phase of team

creation, with the understanding that this initial formation imprints on later phases of a new venture. Our dataset included 69 articles from 1975 to 2018. The article was published in the *Academy of Management Annals* and was co-authored with Miriam Erez (Technion – Israel Institute of Technology), Rajshree Agarwal, Gilad Chen and Brent Goldfarb (all University of Maryland).

### **Relationship problems may lead to failure**

Unfortunately, the **majority** of new venture teams fail prematurely. Such failure is often related to interpersonal issues amongst founders. The first team must learn how to work together as a cohesive unit and face unforeseen challenges. Because certain milestones in the early stages of a start-up give rise to conflict – funding, product development, etc. – this phase is extremely chaotic and stressful for nascent start-ups. At these moments, the team itself becomes even more important.

Acknowledging this, investors start prioritising the entrepreneurial team over the idea or product. This is because the concept is expected to undergo many changes throughout the validation, development and commercialisation processes. However, a strong team can stick together during difficult times, overcome hardships and navigate the turbulent journey. As Sam Altman, Chair of Y Combinator,

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said, "In YC's case, the number one cause of early death for start-ups is cofounder blow-ups." Without a core group of the right people, new ventures are far more likely to **flounder**.

To avoid those breakdowns, founders should acknowledge that the self-selection process during the team formation shapes the future start-up as it grows and evolves. Unlike employees in traditional firms who are assigned to teams by managers, founders can select their partners and craft their own team. Given that the environment of the corporate workplace has become more fluid, endogenous teams – groups that grow themselves – have become more common than they used to be.

Teams are dynamic entities as members join and depart. However, the initial founding team seems to leave an indelible mark on the start-up. The founders create a team culture that may outlast the team configuration itself. The roster may shift, but if the team identity is well-moulded early on, that vital interplay amongst key players will remain intact.

There are certain questions founders can ask themselves when putting together their first top team.

*Origins of new venture teams: How does it all begin?*

Team origins generally start with either a ringleader or group. The ringleader is the entrepreneur with an idea who wants to build a team. The group origin often forms itself based on preferences. A vibrant debate here is what comes first, the idea or the team?

While we recommend a more complex view by which the team and the idea are mutually reliant, a broader suggestion is that a promising idea on its own needs backing, so entrepreneurs should not give up on a team. Going solo is not ideal because there are so many aspects to consider when starting a new venture such as technology, legal, finance and managerial issues.

*How to select cofounders?*

One oft-discussed facet of team building is whether it should be based on interpersonal attraction or complementary resources. Should the founding team be made up of people who get along very well or people who have distinct skill sets that further the business? While the majority of evidence documents entrepreneurs who focus on either interpersonal or instrumental criteria, in rare cases founders can integrate both.

*Where do entrepreneurial teams arise and when should founders look for cofounders?*

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Entrepreneurial teams merge in different contexts, including academic, family, employment and accelerator settings. Each context carries its own set of core values and unique features that impact team formation. Academic contexts, for example, are centred around innovations borne from research and their established connections, while family enterprises are oriented towards trust and the concept of stewardship. Because most evidence to date stems from a singular context, it is hard to predict which context may yield the most successful teams. However, as each context provides rather limited features, founders can extend their search space by crossing context-boundaries.

### **Huge opportunities**

The lure of prioritising the product over the team is one that entrepreneurs can't afford. While building the right team is a real challenge, it is also a major opportunity for founders. Invest in your team, don't limit your search for partners. And incorporate **both/and** thinking into your team formation to allow for both strong relationships and a solid resource base when starting your business.

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